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# **European Labour Markets Challenges in the Context of the “Europe 2020” Strategy**

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## I. “Europe 2020” – The New Line of Employment and Growth

In the beginning of 2010, the European Commission initiated a wide discussion regarding the nature of the future development following the global crisis. The lengthy discussion process, presented in a series of EC documents, traces the route of the formulation and approval of the “Europe 2020” strategy<sup>1</sup>. The vision of the European answer to the crisis presented therein is for “smart, sustainable and inclusive growth, delivering high levels of employment, productivity and social cohesion”.

The set goals relate to the transformation of the European labour markets, the restructuring of the economies and social networks in the context of other challenges that do not stem from the crisis, such as globalization, the depletion of natural resources and the aging of the population.

Hence, the priorities of the new growth are concentrated on: development of an economy, based on knowledge and innovations; resource-effective, green and more competitive economy; an economic of high employment, ensuring social and territorial unity<sup>2</sup>.

The Strategy 2020 formulates five **key goals for Europe**:

- 1) An employment level of 75% for the population aged 20-64;
- 2) Investments in research and development to the amount of 3% of the EU’s GDP.
- 3) Meeting the climate and energy targets (formulated as “20/20/20”).
- 4) Decrease in the share of early school leavers below 10% and a share of youngsters with higher education of at least 40%.
- 5) Decrease in the number of people at risk of poverty by 20 million.

Within the context of the “Europe 2020” strategy the specific tasks in the field of labour are developed in a separate document, entitled “Europe 2020 – Integrated guidelines for the economic and employment policies of the Member States”<sup>3</sup>. Out of the ten formulated integrated guidelines, six concern the economic policy and four relate to the labour market policy.

- 1) The integrated guidelines for economic development include the improvement and preservation of such a macroeconomic environment that would constitute a favorable basis for the realization of smart, sustainable and inclusive growth. These guidelines are aimed at maintaining the sustainability of public finance; overcoming macroeconomic disparities; decreasing disparities in the Eurozone; optimizing the support for development of research and innovations, of

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<sup>1</sup> The process relating to the formulation of the strategy was initiated by President Barroso in the end of November 2009. A series of high-level EC documents (prepared between March and October) preclude the final version, which was approved in the end of 2010.

<sup>2</sup> Europe 2020, A European strategy for smart, sustainable and inclusive growth, EC, Brussels, 3.3.2010 COM (2010) 2020

<sup>3</sup> Council Recommendation of 27.4.2010 on broad guidelines for the economic policies of the Member States and of the Union

knowledge and of the potential of the digital economy; increasing the level of resource-effectiveness and decreasing hazardous emissions; improving the business climate and modernizing the industrial basis.

2) The four integrated guidelines, which more specifically concern the employment policy set the following goals:

- Increasing the labour market participation of both men and women; decreasing structural unemployment and stimulating qualitative employment (Guideline 7);
- Development of a highly qualified labour force in compliance with the demands of the labour market; stimulating qualitative employment and life-long learning (Guideline 8);
- Improving the functioning of the educational system at all levels and stimulating the participation in higher education (Guideline 9);
- Stimulating social inclusion and combating poverty (Guideline 10).

The realization of the specified guidelines envisions the utilization of a wide array of approaches and instruments, stressing on their more effective implementation.

For example, the achievement of a 75% employment rate for the population between the ages of 15-64 envisages the utilization of the following instruments: *flexible employment*, which would lead to fuller utilization of the labour resources, a reduction of labour market segmentation as well as a decrease in both the inactivity and the differences between the genders with respect to their participation in employment. The flexible and reliable employment also includes *active labour market policies*, which stimulate life-long learning and the *mobility of the labour force*. *Social dialogue* is another instrument, which is used to combat labour market segmentation, employment in the grey sector of the economy, *i.e.* employment that does comply with the accepted social and labour regulations.

The efforts aimed at the achievement of compliance between the quality of the labour force and the demands of the labour market center on the *qualification of the labour force*, its adaptation to the demands of the labour market, and on the stimulation of *qualitative employment and life-long learning*. The more specific instruments to that effect include the development of systems for identification of the required competencies, for removing the barriers before professional and geographical mobility, for stimulating the transfer of skills and competencies from one working place to another and from one job to another given a high degree of mobility of the labour force.

As a means to achieve the quantitative parameters for decrease of the number of early school leavers to 10% and for increase of the share of youngsters with higher education to over 40%, the policies are mainly focused on the educational system and the education at all levels, from the earliest form of education for kids to adult education. The educational systems themselves are a subject to re-

evaluation as is the quality of education and the contents of the educational courses.

The active social inclusion and poverty reduction (characterized by the quantitative parameters for decrease in the number of people, living below the poverty threshold by 25% and decrease of the total number of the poor by 20 million people) is dependent upon the implementation of key policies aimed at the provision of equal opportunities, accessibility, sustainability, high quality of the services, and effectiveness of the anti-discrimination measures.

The framework and visions drawn by the “Europe 2020” strategy, as well as the set of approaches and instruments for achieving the respective goals, are further developed in the national reform programs and strategies of the individual member-countries, which also take into consideration the national specifics and the problems relating to the specified goals and the recommended approaches and instruments.

To what extent, however, do the defined policies and the recommended relatively diverse instruments and action mechanisms contribute to a mitigation of the negative impacts of the crisis on the labour markets of the EU member-countries?

## **II. The Crisis and Its Effects on the Labour Market**

According to the EC assessment of the Union’s economic development, the impact of the crisis is “deep” and finds its reflection in “a large loss in economic activity, a substantial increase in unemployment, a steep fall in productivity, and badly weakened public finances”.<sup>4</sup>

### ***1) Sharp Decrease in Labour Demand***

The loss of economic activity stems from the sharp decrease in labour demand, which is the result of the shrinking of the volume of production of goods and services, the decreased internal trading flows, and the restricted investment activity in 2008 and 2009. Despite the feeble recovery of employment of 0.2% evidenced during the second quarter of 2010, the number of the employed in the EU is 221.3 million people, which is 5.6 million less in comparison to the pre-crisis peak in employment registered in the second quarter of 2008. The number of the employed between the ages of 20-64 is 208.4 million people, which corresponds to a rate of 68.8%<sup>5</sup>. The Eurostat data about the end of 2010 indicate that the employment level of the 20-64 age group decreases for a third year in a row from 70.4% in 2008 to 69.1% in 2009 and reaches 68.6% in 2010<sup>6</sup>.

The demand for labour is affected to a differing degree by the crisis in the individual member-countries of the Union. The factors, which lead to a decrease in the demand for labour also differ, but, as a whole, the crisis’ effects over the labour markets are

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<sup>4</sup> Annual Growth Survey: Advancing the EU's Comprehensive Response to the Crisis, Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, Brussels, 12.1.2011, p.2.

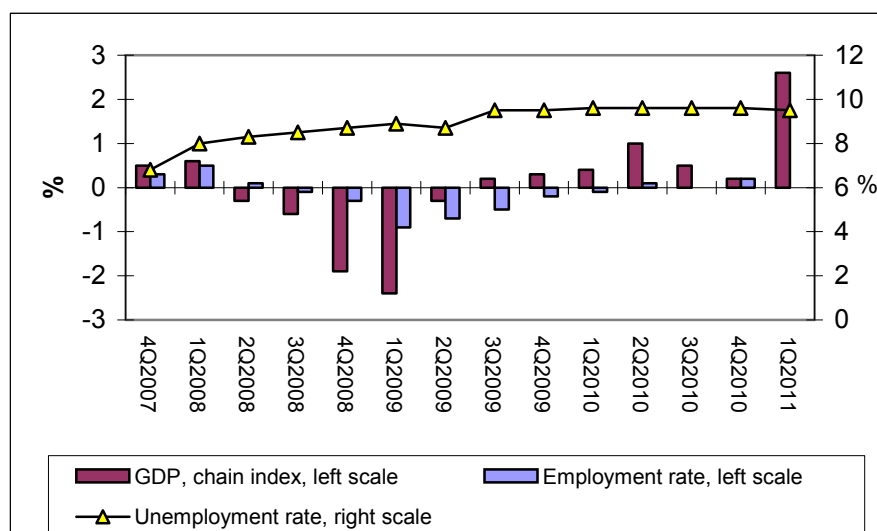
<sup>5</sup> Annual Growth Survey, Annex 3, Draft Joint Employment Report, p.2

<sup>6</sup> Eurostat, Latest news releases, [http://epp.eurostat.ec.europa.eu/cache/ITY\\_PUBLIC/3-29062011-AP/EN/3-29062011-AP-EN.PDF](http://epp.eurostat.ec.europa.eu/cache/ITY_PUBLIC/3-29062011-AP/EN/3-29062011-AP-EN.PDF)

transferred from the stock, the financial and the investment markets through the decreased external trading flows and consequently through the decreased internal consumption.

The collapse of GDP begins to gradually be compensated for by the third quarter of 2009. The growth is minimal and its effects on employment only manifest themselves, given the one-year lag, during the third quarter of 2010 (Figure 1).

Figure 1. GDP and Employment Level Fluctuations in EU-27



Source: Data from Quarterly EU LM Review, summer 2009 and spring 2010.

Despite the achieved positive growth of 1.0% during the second quarter of 2010 and of 0.5% during the third quarter, the forecasts remain moderately pessimistic. The anticipated average growth rate during the period 2011-2020 is 1.5% for the EU-27. Furthermore, the outlined medium-term perspectives constitute a basis for far more pessimistic evaluations of the chances of achieving the goals set forth by the Strategy 2020.

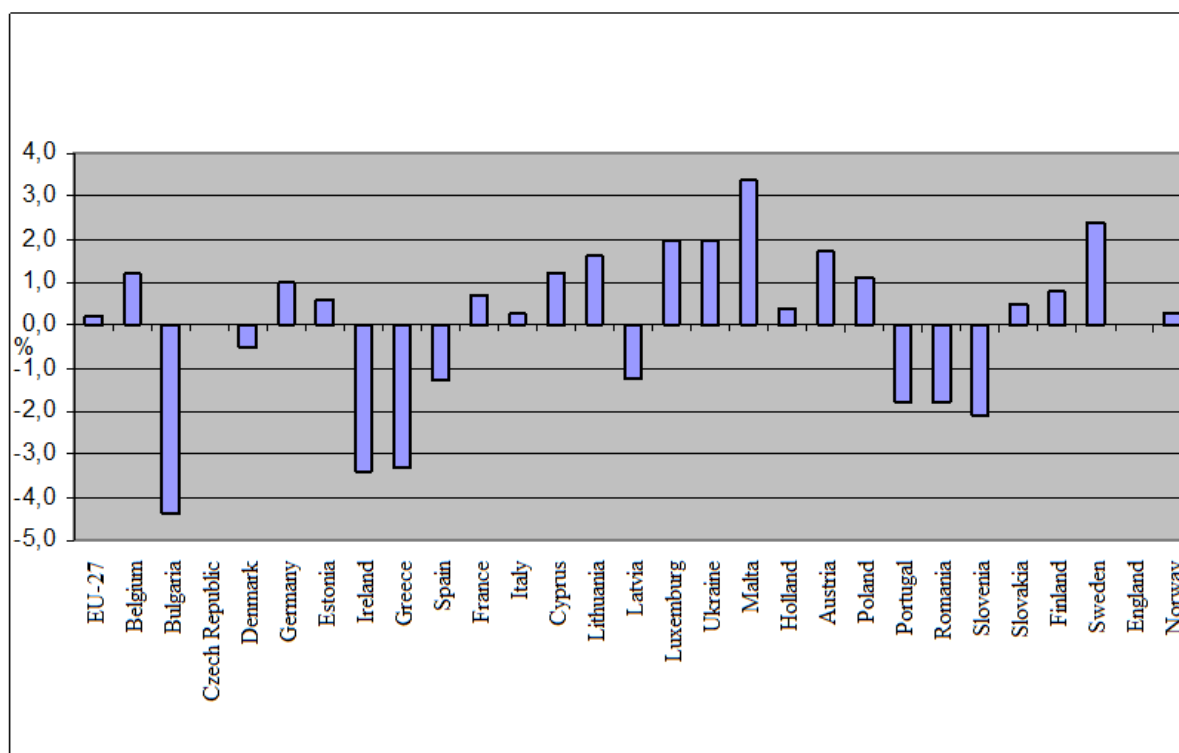
The instability of growth alongside the low level of employment that it generates provides grounds for that assertion. Figure 2 indicates that the reversal in employment growth (on a quarterly basis) achieved by the Union takes place in the end of 2010, but its level is only 0.2%.

Despite its moderate rate, the EU employment growth is evidenced in 17 of the member-countries, while the increase in employment is most dynamic in Malta (3.4%), Sweden (2.4%), Luxemburg and Hungary (2%).

The employment growth rate falls within the *one to two percent* range in Poland (1.1%), Austria (1.7%), Latvia (1.6%), Cyprus (1.2%), Germany (1%) and Belgium (1.2%). Employment increases by 1% in Estonia, France, Italy, the Netherlands, Slovakia, Finland and Norway. Two countries (the Czech Republic and England) register a zero percent growth rate.

**In nine of the member-countries the employment crisis continues**, while the growth rates remain negative in the end of 2010 as well. These countries are: Bulgaria (-4.4%), Ireland (-3.4%), Denmark (-0.5%), Greece (-3.3%), Spain (-1.3%), Lithuania (-1.2%), Portugal (-1.8%), Romania (-1.8%) and Slovenia (-2.1%). It is anticipated that these countries will achieve a reversal of that dynamic in 2011 as it is conjectured that the pitfall has already been overcome. For example, in Bulgaria the negative employment growth rate decreases from -7.3% in the first quarter of 2010 to -6.6% in the second, -5.2% in the third and -4.4% in the fourth quarter<sup>7</sup>.

Figure 2. Employment Level of the EU Member-countries in 2010 (4<sup>th</sup> Quarter)



Source: Eurostat, Employment and Unemployment Statistics, quarterly data.

Given the European average employment level (68.9% for the EU27), the employment level in Bulgaria in the end of 2010 (65.4% - fourth quarter) is 3.4 percentage points lower. The lower employment level in Bulgaria is observed in all segments of employment, incl. employment among men and women, employment of the population aged 15-64 and employment among older workers (ages 55-64)<sup>8</sup>.

As a whole, the moderate growth forecasted for the Union cannot stimulate an increase in labour demand and the opening of new working places that is sufficiently significant to compensate for the ones lost during the time of the crisis unless it is supplemented by considerable structural reforms. The experience accumulated during previous crisis periods provides grounds for the formulation of this conclusion since it indicates that employment growth is only registered after achieving a GDP growth rate, with a lag of

<sup>7</sup> Eurostat, Employment and Unemployment Statistics, quarterly data.

<sup>8</sup> Ibid.

one year, which exceeds 3%. In that sense, given the outlined employment dynamic, serious challenges face the achievement of the goals of the Europe 2020 Strategy.

## **2) High Unemployment**

Unemployment is still a major problem facing labour markets today. Its level increases since the beginning of 2008 and stabilizes at a comparatively high level after February 2010 – 9.6%. In the beginning of 2011, the number of the unemployed is 23.1 million people, which significantly exceeds the number of the unemployed from the pre-crisis period – 16.9 million people in 2007.

Amongst the member-countries the unemployment level varies considerably – during the third quarter, it is lowest in the Netherlands (4.4%), Luxemburg (4.8%) and Austria (5.1%) and is highest in Spain (20.6%), Lithuania (18.3%) and Latvia (18.2%). The dynamic of the fluctuations in unemployment rates is also quite different in the individual member-countries – it decreases in six countries (Finland, Sweden, Germany, Malta, etc.), remains stable in three countries and increases in eleven member-countries. The fact that, in almost half of the member-countries, unemployment continues to rise is one of the indicators of the instability of economic growth as a whole.

*Youth unemployment* is one of the major problems on the labour market. It continues to display an upward trend as its level increases from 19.2% in the fourth quarter of 2008 to 20.7% in November 2010<sup>9</sup>. The number of the unemployed youngsters is 5.2 million, which is 1.2 million higher than the level registered in the spring of 2008. In comparison to that period, the increase in youth unemployment is even higher in the end of 2010 – 30%. The Annual Growth Survey (2011) reports a positive tendency of decrease of youth unemployment since September 2009 as its level decreases to 20.4%; however, that is only 0.1% lower than the level from the preceding year.

Youth unemployment is highest in Spain (43.6%), Slovakia (36.6%) and Lithuania (35.2%); it is lowest in the Netherlands (8.4%), Germany (8.6%) and Austria (10.3%)<sup>10</sup>.

*The gender dimensions of unemployment* indicate that initially the crisis affected male employment more strongly, which is reflected by the higher rate of unemployment growth amongst male workers. Afterwards, however, employment amongst women also begins to decrease; respectively, female unemployment rises. Hence, the fluctuation of unemployment rates amongst men on an annual basis is relatively small (9.8% in November 2009 and 9.9% in November 2010), while during the same period the dynamic of female unemployment is higher – from 9.2% to 9.6%, respectively.

*Long-term unemployment* increases within all groups of the population, though to a differing degree. The data indicate that out of all unemployed in the EU, 5 million have been without a job for a period of 6-11 months<sup>11</sup>. Low qualified workers and migrants from countries outside of the EU are identified as high-risk groups with respect to employment<sup>12</sup>.

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<sup>9</sup> Quarterly EU Labour Market Review, Spring, 2010.

<sup>10</sup> <http://www.asymptotix.eu/content/euro-area-unemployment-rate-101-eu27-96-november-2010>

<sup>11</sup> Annual Growth Survey, Annex 3, Draft Joint Employment Report, Brussels, 12.1.2011, p.2

<sup>12</sup> Ibid, p.2



Given the overall high level of unemployment, it should be underlined that the groups most strongly affected by the current crisis are the youths, the women and the long-term unemployed.

### 3) *Decrease in Labour Productivity*

The crisis slowed down the structural reforms and decreased the dynamic of labour productivity in Europe. The relatively slow recovery, characterized by uneven rates, leads to an increase in the difference between the labour productivity level of Europe and the ones of its main competitors. It is anticipated that until the end of 2010 eleven member-countries of the Union will continue to report productivity levels, which are lower than the respective pre-crisis ones<sup>13</sup>.

Figure 3 illustrates the decelerating labour productivity dynamic in 2008 and 2009 (-0.2% and -2.4%, respectively); in 2010 that tendency is reversed and the growth rate becomes positive, but the rates of increase are very low. In comparison, the labour productivity in the USA registers a growth rate of 0.8% in 2007, which decreases to 0.4% in 2008, but increases by 1.2% in 2009 and by 3.2% in 2010<sup>14</sup>. In other words, despite the strong negative influence of the crisis over the labour market and the high unemployment that the American labour market registers, the productivity of labour does not fall below zero.

Figure 3. GDP, Employment and Labour Productivity Dynamic in EU-27 for the Period 2007-2011 (Quarterly Data)



Source: Employment in Europe 2010, EC, Statistical Annex

The slow recovery is linked to the lack of sufficiently active structural reforms capable of stimulating a redistribution of employment that is more effective from the standpoint of the generated value added, respectively the productivity of labour. The extensive application, in member-countries of the Union, of measures aimed at the protection of working places in sectors, which have been strongly affected by the crisis, also influences the labour productivity dynamic and the restructuring of the labour force. This approach and the resources invested in such programs aimed to “soften” the crisis’ blow and diminish the wave of unemployment.

<sup>13</sup> Ibid, p.2

<sup>14</sup> Employment in Europe 2010, EC, Statistical Annex

The temporary schemes, such as shortened working hours and income compensation, in support of employment achieved their goals in as far as they protected countries from a sharp increase in unemployment. For a considerable segment of the labour force, these schemes played the role of a “buffer” for transition from employment towards social protection. Meanwhile, they ensured that the recovery process of restructuring of the lines of manufacturing and the companies was in compliance with the principles of free market competition. In that sense, the more radical measures implemented by the USA and Japan provided superior results in as far as they supported the faster restructuring of the lines of production and employment even at the cost of temporarily incurring higher levels of unemployment.

#### ***4) Decreased Income and Worsening of the Standard of Living***

The labour market crisis, the decrease in employment and the increase in unemployment ended the period of comparatively sustainable and increasing incomes and living standard of the population. In the countries, in which the incomes fall below the European average and the standard of living is lower, the collapse in employment on the labour market has a very significant influence on people’s well-being. These are mainly new member-countries, but also countries characterized by a high level of indebtedness and disrupted fiscal stability.

The decrease in the number of working hours, the freezing of the growth of working salaries and of the pensions are all facts, which lead to a decrease in household incomes and to an increase in the number of the working poor, the number of the people at poverty risk and the number of the socially marginalized people.

According to Eurostat data, the people in work at risk of poverty in the EU-27 is 8.5% in 2008 and 8.4% in 2009. This indicator represents the share of the employed, above the age of 18, whose disposable income falls below the poverty risk level, *i.e.* 60% of the average national disposable income. Despite the fact that the level of this indicator, on average for the EU-27, is relatively stable during the specified two years, in 15 out of the 27 EU member-countries an increase in the number of the working poor is evidenced in 2009<sup>15</sup>.

The decrease in household incomes as a result of the crisis finds its reflection in an increase in the poverty level in a number of countries, such as Denmark, Estonia, Ireland, Spain, Latvia, Lithuania, Luxemburg, Hungary, Malta, the Netherlands and others. The average EU-27 level of the population at risk of poverty and social exclusion is 23.6% in 2008 and 23.1% in 2009. In Bulgaria, the percentage of the population exposed to a risk of poverty is approximately twice higher – 44.8% in 2008 and 46.2% in 2009<sup>16</sup>.

The increase in poverty and the risk of poverty threatens the group of the infants particularly strongly. During the crisis period, on a European scale, the poverty share within this group increases from 14.1% in 2007 to 14.4% in 2008 and to 14.7% in 2009. The increasing share of poverty among infants poses a challenge before the realization

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<sup>15</sup> Some of these countries are: Bulgaria, Cyprus, Denmark, Spain, Estonia, Hungary, Italy, Latvia, Lithuania, Malta, Norway, Romania and others.

<sup>16</sup> According to data by Eurostat, <http://epp.eurostat.ec.europa.eu>

of the goal of the “Europe 2020” Strategy to achieve a decrease of the share of the early school leavers below the level of 10%.

Data provided by the Bulgarian national statistics confirms that during the crisis period the poverty level increases most significantly within the 0-15 age group, *i.e.* amongst the infants - 17.1% in 2008 and 21.4% in 2009. This indicator increases from 12.5% in 2008 to 13.4% in 2009<sup>17</sup> for the age group 16-64 years old.

Poverty relates directly to the infants’ withdrawal from the educational system and to the worsening of the qualitative characteristics of the future labour force. To a considerable extend, the “poverty” factor determines the growing level of illiteracy and the number of early school leavers.

#### ***5) Increased Pressure on Public Expenditures and Social Systems (Pensions, Social Security, Unemployment Benefits, Active Labour Market Policies)***

Social security systems are an important “buffer” capable of softening the crisis’ impact. In most member-countries they protected household incomes to a certain extend.

The degree of protection varies among the individual countries, which is confirmed by the aforementioned levels of the risk of poverty indicator for the population in the member-countries. In some of the countries, where the social security systems are stable and financially secure, the aid provided to households exposed to that risk, protects their standard of living and keeps their income above the poverty threshold. In other countries, where the social security systems are relatively weak and lack financial security, social assistance fails to encompass all persons in need, its size is minimal and in most cases it manages to guarantee a living minimum as apposed to a standard of living.

*Income protection* can be implemented through various instruments such as support of the population’s purchasing power via a decrease in taxation; decreasing the amount of the excises imposed on goods and services of a vital necessity, etc. A more direct form of income support also includes compensatory schemes funded with resources from the state budgets and the incomes of part-time workers.

As an anti-crisis instrument, the changes in the schemes, access and duration of the received *unemployment benefits* not only aim to support the incomes of the people at risk, but also to boost their activeness and stimulate their labour re-integration.

Bulgaria’s example with regard to the implementation of this anti-crisis instrument indicates that the removal of the ceiling of the provided unemployment benefits since the middle of 2010 had a positive effect in support of the incomes of the unemployed. Within the structure of all unemployed, the share of the unemployed entitled to receive benefits that exceed the fixed ceiling increased to 22% in comparison to 0.3% prior to the legal amendment. That means that for nearly 27

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<sup>17</sup> According to data from: NSI, [http://www.nsi.bg/ORPDOCS/HH\\_6.1.xls](http://www.nsi.bg/ORPDOCS/HH_6.1.xls)

thousand unemployed people the removal of the unemployment benefits ceiling has led to an increase in their income during times of unemployment<sup>18</sup>.

One of the anticipated effects of the implemented legal adjustments in Bulgaria is to stimulate the payment of benefits based on the actual salaries received as opposed to the minimal salary levels, *i.e.* to create a stimulus for “legalization” of the actual level of labour remuneration.

In the predominant part of the EU member-countries, the changes in the *pension schemes* are aimed at an increase in the retirement age, which also corresponds with the need for prolonging the activity of the labour resources in the context of the aging of the population and the decrease in the number of the labour force. The increase in the retirement age supports the financial stability of the pension funds as it ensures the inflow of resources therein. Meanwhile, however, from the standpoint of the labour market, the increase in the age of retirement maintains the level of labour supply in a period when the demand for labour decreases. In that sense, the utilization, during crisis periods, of early retirement schemes contributed to mitigating the condition of the supply side of the labour market. Nonetheless, the effectiveness of these schemes is not very high, particularly in countries where the pension level is low.

### **III. Labour Markets Policies and the Goals of Europe 2020**

As was already noted above, the EU and the member-countries implemented active policies to soften the crisis’ negative effects on labour markets. The European Recovery Plan (December 2008) called for a “coordinated approach” of cooperation aimed at the stabilization of the economies, growth recovery and preservation of social cohesion. Within the framework of the Recovery Plan, financing to the amount of EUR 200 billion was ensured for the purposes of implementing measures in support and protection of employment as well as measures for stimulating entrepreneurship, stimulating labour demand and increasing the access of companies to financing<sup>19</sup>.

The governments of the EU member-countries financed the implementation of the anti-crisis measures with considerable resources and hence increased the deficit and were consequently forced to implement strict financial consolidation measures.

The member-countries of the Union also received significant financial support from the EU funds. The sizeable financial resource, which was provided as a means to

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<sup>18</sup> According to data from the National Social Security Institute, [www.nsi.bg](http://www.nsi.bg) (statistics, unemployment benefits)

<sup>19</sup> During the course of implementation of the Plan for Economic Recovery, in January 2009, the EC completed an overview and formulated recommendations towards member-countries regarding their respective programs for structural reforms within the context of the Union’s anti-crisis plan and, in June 2009, disseminated a communiqué entitled “A Shared Commitment for Employment”. The document specifies three key priorities: preserving employment, opening new working places and stimulating labour mobility; professional development in answer to the demands of the labour market; improving the access to employment. During the high-level forum on employment, which took place in May 2009, these priorities were further developed into ten specific spheres of action, on which the member-countries of the Union should focus their attention and utilize the support instruments provided by the EC.

soften and decrease the negative impacts of the crisis, increased the ordinary labour market expenditures twice. For example, in the period preceding the crisis the employment policy expenditures amounted to 1.6% of GDP or EUR 200 560 million (2008). These levels vary among the individual countries, but the ranking places Belgium at one of the first places with labour market policy expenditures to the amount of 3.3% of GDP, while the lowest levels are reported in Romania and Estonia – less than 0.25% of GDP<sup>20</sup>. The extend to which these expenditures have had the much needed effects and the degree to which they have contributed to an amelioration of the crisis' unfavorable impacts is a question, on which the attention of researchers, politicians and the Union in general is now focused.

As is well-known, the policies on the labour market include three main components: (a) *supporting policies* (passive interventions, incl. support for income outside of employment and schemes for early retirement), (b) *labour market policies* (active interventions, incl. training, job placement, employer incentives, direct expenditures at the working places, employment stardom incentives, etc.) and (c) *labour market services*. In 2008 the proportion of these three types of policies is as follows: 0.19% of the GDP of the EC-27 is directed at labour market services; 28% goes to active policies and 52% is attributed to supporting policies on the labour market.

Table 1. Structure of the Expenditures for Labour Market Support in the EU-27

Activity	Share in Total Expenditure (%)
Expenditures for training	39,0
Expenditures for stimulating employment	24,0
Expenditures for opening of working places	13,4
Expenditures for stimulating starting employment	7,2
Other expenditures	16,4

Source: Labour market policy expenditure, Eurostat, Population and social conditions, 66/2010

The more detailed breakdown of the structure of the expenditures in the EU-27 in 2008 outlines the tight spots that labour markets face in crisis conditions and need to overcome. The expenditures for training rank first (comprising 39% of total expenditure), which reflects the important role of increasing the quality of the labour force and improving its adaptation to the post-crisis labour demand. The expenditures for employment stimulation rank second with 24% of total expenditure; they aim to limit economic inactivity and decrease the outflow of workers from the labour market. The expenditures for employment and rehabilitation support represent 16.1% of total expenditure; 13.4% are used for direct work place creation and 7.2% for support to starting activities for employment.

Within the framework of the set of key goals and principles recommended by the EU, the evaluations of the anti-crisis measures implemented by the member-countries indicate that the adaptation of the labour markets to the new economic

<sup>20</sup> Labour market policy expenditure , Eurostat, Statistics in focus, 66/2010

conditions and the mobility from less effective working places towards new, innovative and highly productive working places is ***not sufficiently effective and flexible***. Furthermore, the necessary synergy with the goals of the social policy in relation to the support of high-risk groups, the intensification of social integration through labour activity and the decrease in poverty has not been achieved. On the contrary, there is evidence of ***growing labour market segmentation*** as well as ***increasing marginalization***.

The analyses of the state of the labour markets of the member-countries outline the following problems: ***high youth unemployment***, unfavorable position with regard to labour re-integration of the ***long-term unemployed***, the ***low qualified workers*** and the ***older workers***. Despite the fact that in the majority of the member-countries the efforts were concentrated on “improving job placement measures and investing in prequalification” (a total of 64 measures, implemented in 21 member-countries)<sup>21</sup>, these measures do not have the positive effect of improving the employment status of the aforementioned high-risk groups. This fact draws attention to the operation of the employment offices. The challenges facing their effectiveness in crisis conditions stem from the fact that the scope of their operation is subject to a manifold increase, *i.e.* they need to provide services to a much larger number of clients, while, due to the financial restrictions imposed on public expenditure, their capacity in terms of personnel and financial resources decreases.

From the standpoint of Europe’s competitiveness on the international markets, the ***level of labour productivity*** poses a further challenge, since the studies indicate a comparative decrease in its dynamic. In that respect, the measures supporting employment through a decrease in labour expenditures (a total of 35 measures, implemented in 17 member-countries) are expected to exert a positive influence and to be stimulated. The decrease in the so-called non-operating expenditures in crisis periods, however, should not exceed that working conditions level, which ensures a sustainable and inclusive growth and guarantees adequate working conditions.

The implementation of the anti-crisis measure for decrease in non-operating expenditures makes use of various formats in the individual member-countries: ***decrease in unemployment installment payments*** for both employers and workers (Germany in 2009); ***decrease in social security payments*** (Hungary in 2010: from 32 to 27% for working salaries below a certain level); ***revoking social security payments for a specified period for new working places*** (Ireland); ***decreasing social security payments for enterprises that have 10 employees or less*** and hire low qualified workers (France); ***revoking social security payments for employers*** that hire long-term unemployed workers (Portugal); ***reimbursement of social securities to employers that hire unemployed people below the age of 26 and above the age of 55*** (Slovenia) and others. The diversity of the specific manifestations of this measure highlights its flexibility in view of specific national goals, which constitutes a noteworthy advantage.

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<sup>21</sup> Giuseppe Garone, Gert Jan Koopman, Karl Pichelmann, Labour market prospects and policies to soften the impact of the financial crisis, ECFIN Economic brief, Issue 1/May 2009

It is, however, necessary to take into consideration the fact that the decrease in social security expenditures is *a temporary instrument for mitigating the negative effect of the crisis* over employment and social unity. Ordinarily, this is done for specific groups of people, which find themselves in a high-risk position on the labour market, such as disabled people, youngsters, long-term unemployed, or for individual sectors – for example, the small- and medium-sized enterprises.

The leading factors that contribute to an increase in the productivity of labour in the member-countries until now is the ***optimization of employment via a decrease of “internal labour reserves” as well as the re-allocation of labour*** from sectors characterized by low productivity to ones with a high productivity of labour. As a means to achieve these goals, measures for flexible working hours (a total of 20 measures, implemented in 16 member-countries) are utilized as well as measures for stimulating education and life-long learning (a total of 10 measures, implemented in 7 member-countries)<sup>22</sup>.

At this point, it is difficult to evaluate the degree to which the EU member-countries manage to make use of the crisis by renovating their production capacity on the basis of innovative technologies and knowledge-intensive lines of manufacturing, which constitutes a prerequisite for the achievement of “smart growth”, because the process has reached different phases in the individual countries. It is apparent, however, that the ones that will succeed in the technological restructuring will be the leaders in growth in the post-crisis period.

In that sense, given the conditions of financial consolidation, the concentration of efforts and policies on key national goals is of chief importance. The dispersion of the efforts to that effect through the provision of support to sectoral policies characterized by unclear horizons for long-term development or social compromises with the protection of working places and payment levels for ineffective lines of production and services can not be considered an adequate growth policy that is in compliance with the characteristics of the Strategy 2020.

In that respect, Bulgaria has not yet found the right way of clearly defining strategic economic goals and sectoral policies, capable of creating of new working places within the highly productive sectors or services. The growth, in the context of the implemented economic policy, relies primarily on extensive factors and, to a smaller extends, on knowledge-intensive lines of production. The level of support for investments in sustainable, ecological, energy-conserving, knowledge-intensive sectors is comparatively weak, predominantly declarative and the consequence of isolated decisions; it does not stem from an integral economic vision in line with the goals set forth by the Strategy 2020.

The relatively slow and still inconclusive rebound of the European labour markets from the low point of the economic crisis is also a consequence of the predominance of supportive and protective measures as opposed to reformation and transformation. In support of that assertion come the facts that within the overall structure of the implemented anti-crisis measures, the ones that predominate are: measures in support of the purchasing power of the households

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<sup>22</sup> Giuseppe Garone, Gert Jan Koopman, Karl Pichelmann, Labour market prospects and policies to soften the impact of the financial crisis, ECFIN Economic brief, Issue 1/May 2009

(a total of 48 measures, initiated in 18 member-countries), measures for softening the crisis' effect over individuals (a total of 27 measures, implemented in 13 member-countries), and measures in support of social security (a total of 21 measures, implemented in 12 member-countries).

The implemented measures for income protection and for social security, as an expression of the European social doctrine, vary considerably in accessibility, scope, duration etc. within the Union; the differences between the old and the newly joined member states are particularly notable. This stems from a differing degree of establishment of the respective networks, of the accumulated capacity and financial resources and of the mechanisms for control and evaluation of the effectiveness. That is why the measures implemented in that field have a differing effect in the individual member-countries of the Union and induce different behavior in their beneficiaries with regard to their labour and social re-integration. In that sense, despite the differences between the member-countries with regard to their capabilities to financially secure the income protection and social security of their citizens in crisis conditions, they have one thing in common: the schemes relating to this type of protection have a stimulating effect on labour integration.

As a means to support the household incomes of people that have been laid off, a series of member-countries made use of different measures like:

- ***Increase in the amount of the provided unemployment benefits*** (Belgium, Austria, Poland, Holland);
- Increase of ***the duration of their provision*** (Latvia);
- ***Changes in the conditions regulating the access to unemployment benefits by decreasing the period of employment required for granting access to such benefits*** (Slovenia, Finland, France).
- Some countries entirely changed the eligibility rules to the system (Sweden, Romania, and the Czech Republic). As a whole, the support for household incomes became a more widely used measure aimed at maintaining the purchasing power of the households in 2009 and 2010.

The low level of utilization of the labour resources is a problem that faces the Union and stems from the negative effects of the demographic crisis and the aging of the population as well as from the increasing outflow of the labour force from the labour markets. The *matter of the level of economic activity of the population within working age* becomes ever more significant in view of the on-going intensive emigration processes. In that sense, the implemented measures aimed at the activation of inactive persons (a total of 34 measures, implemented in 19 member-countries) are of considerable importance, especially if the effects from them are satisfactory at the national level. The problem is that in a series of cases the low level of economic activity is a consequence of the insufficient competitiveness of the labour market, which results from the lack of education, qualification or basic skills, examples of which are illiteracy, poor communicativeness, lack of computer or other basic skills. This necessitates that the efforts of the labour intermediaries be focused on the individual approaches, while the provided support combines the encouragement of economic activity with other measures aimed at increasing the flexibility of labour re-integration. It is apparent that this approach requires sizeable financial resources and



considerable capacity of the labour offices, which, as already mentioned, is limited by the restrictive boundaries created by the budget resources, which have been decreased within the framework of the implemented financial restrictions. This problem remains unresolved, while the effect of the solutions recommended at the European level, which aim at decentralization and the wider application of public-private partnerships in that sphere, can only provide resolutions in the medium- and long-run; however, there is a need for the implementation of active measures “today”.

Bulgaria is a typical example of a newly joined country, wherein the social security systems are comparatively new and unconsolidated with regard to the accumulated financial resource and the labour capacity. The social assistance provided to the people at risk of unemployment, poverty and social marginalization is characterized by a limited capacity both in terms of its beneficiaries and its amount. The social systems have comparatively strict access criteria, yet in a series of cases they allow for a certain degree of “permeability”. Such examples are the access to aids in cash and in kind within the framework of the social assistance schemes, the access to social security in case of disability, etc. The degree of “permeability”, however, is not the problem of those systems; it stems from the degree of control over the system and the evaluation of the effectiveness of its programs and measures. In that sense, given the available resources, social assistance can become more effective if that aspect of their activity improves.

The implementation of **subsidized employment in the public sector** (as a scheme in support of the employment, in crisis conditions, of particularly vulnerable segments of the labour force) makes use of different formats. For example it targets low qualified workers in Lithuania and the youngsters in Great Britain.

Although this scheme is commonly implemented by the member-countries of the European Union, it does not provide a lasting solution to the problem facing the high-risk groups. The positive aspect of this measure is the creation of employment in times of economic decline. However, its limitations stem from the financial restrictions as well as from the fact that the prolonged application of such a measure distorts the labour demand proportion between the public and private sector.

The economic studies of subsidized employment indicate a series of negative consequences that stem from it, such as a disruption of the market behavior of the agents that demand and supply labour as it alters the costs and benefits of the sale and purchase of labour. The so-called “deadweight” effect occurs, *i.e.* the measure preserves the employment of workers, who could find work even without participating in that scheme. It also provokes other effects, via which employment on equal footing is replaced by employment within the framework of the scheme; it gives employment within the framework of the subsidized employment scheme an advantage over any form of employment that is outside of this scheme, *i.e.* the equal footing principle on the labour market is disrupted. The momentary financial situation is also of considerable importance for the implementation of the measure. Usually, financial restrictions direct such schemes towards a certain kind

of employment and do not encompass overall employment. The scheme also disrupts other automatic labour market links such as the differentiation of labour remuneration between the low qualified and the more highly qualified workers. In view of those negative effects it can be concluded that the measure is applicable to specific high-risk groups of workers and is to be implemented temporarily.

Approximately 20 million small- and medium-sized enterprises (99% of all companies) operate in the EU; they provide employment to nearly two thirds of the active labour force and generate around 60% of the value added<sup>23</sup>. These facts highlight the importance of this sector and the need for specific programs aimed at ***encouraging self-employment and entrepreneurship***. That need is particularly pressing in crisis conditions and in view of the fact the sector lost around 450 000 self-employed workers during the period 2008-2010 (first quarters). In the EU member-countries the schemes for encouraging self-employment and entrepreneurship make use of different formats of implementation, incl. ***subsidies for starting one's own business*** (Estonia, Finland, Latvia, Poland, Portugal), which can also be directed at specific target groups; ***various forms of training; health insurance discounts*** (Slovakia); ***capitalization of unemployment benefits*** (Spain); ***provision of credits*** (Great Britain); ***stimuli for office buildings and automobile parks*** (France); ***tax discounts on the incomes of self-employed workers*** for home renovations (Germany), etc.

In March 2010 a European micro-financing fund to the amount of EUR 100 million was created at the European level for a period of four years with the possibility of increasing its total amount to EUR 500 million. The fund allows for the realization of joint initiatives with financial institutions and primarily with the European Investment Bank. In 2008 nearly 770 000 people participated in those schemes and received EUR 4.1 million or 0.03% of the European gross product.

The evaluation of these schemes, however, takes into consideration the fact that the opening of working places via such measures is a process, which produces effects in the medium- and long-run, especially given the difficulties relating to the start of a new business in times of economic recession. The fact that the provision of support to a part of the business disrupts business competition should also be noted as a disadvantage of such schemes<sup>24</sup>.

Bulgaria's example shows that this type of support of the business mostly addresses the solution of current hardships and, to a much smaller extend, investments with a medium-term perspective. In 2008, the country initiated a project in support of the small- and medium-sized businesses and in aid of the farmers to the amount of BGN 500 million in preferential credits. The data indicate that within the framework of the program for the small- and medium-sized enterprises, 636 credits have been received to the amount of BGN 350.5 million, while within the framework of the program in support of the farmers, 605 credits have been received to the amount of BGN 62 million<sup>25</sup>. The conducted analysis further indicates that the business uses the received resources to support on-going business activities and, to a much smaller extend, investments in

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<sup>23</sup> Employment in Europe 2010, p.87

<sup>24</sup> Ibid, p. 88

<sup>25</sup> The majority of the received credits fell between 50 and BGN 8 million

innovations and the expansion of employment in a medium- and long-term perspective. In the short-term, as a reaction to the crisis, the sector laid off a considerable portion of the dismissed labour force – 22 709 people in the period 2008-2009.<sup>26</sup>

Clearly, the implemented anti-crisis measures do not have a unidirectional effect and the respective evaluations differ in relation to a series of factors, incl. the timeliness and duration of their application.

It can also be concluded that some of the active labour market policies are more effective during the initial phase of the economic decline (shortened working hours), while others are more successful in stimulating the demand for labour during the phase of economic recession (temporary subsidies). Furthermore, some of the measures (subsidized employment) address the most marginalized groups on the labour market and have socio-economic effects, which should be compared to the fiscal restrictions they provoke. When evaluating this type of measures, the reverse effect that subsidized employment and the temporary subsidies in the public sector have on labour demand in the private sector should be taken into consideration. Hence, the implemented measures should be subject to regular evaluation and a flexible attitude not only at the national level, but also at the regional and micro-level.

Despite the implementation of various sets of anti-crisis measures and the attempts at mitigating the impacts of the crisis over labour markets, the European labour markets continue facing significant problems relating to the effectiveness of their functioning and their flexibility with regard to the economic cycle. As a result of that, the European labour markets register considerable disbalances, which pose a serious challenge for the socio-economic development of the member-countries within the context of the Strategy 2020.

#### **IV. Conclusion**

The “Europe 2020” Strategy’s vision of accelerated development through the achievement of “new growth” meets serious challenges.

The analysis indicates that the labour markets of the member-countries are strongly affected by the cycle economic development and the unfavorable demographic processes. The unstable economic growth and the lack of security of the financial and stock markets pose a challenge before the demand for labor and stimulate the growing economic inactivity and social polarization. The crisis continues to pose a challenge for the European labour markets, while the tendencies displayed by the dynamic of the main employment and unemployment parameters is unstable. The increase in the demand for labor and the decrease in unemployment had a temporary character; there are signals of a new stagnation on the labour market. The attempts of the EU and the member-countries to influence the labour market with active and passive policies had a temporary positive effect, but the duration of the economic recession exhausted their potential. It is apparent

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<sup>26</sup> Analysis of the state and growth factor of the SMS-enterprises, Agency for SMS and NOEMA, 2011, p.27 [www.sme.government.bg](http://www.sme.government.bg)

that the actual dynamic of the labour markets in 2011 and the vision about their development as formulated by the Strategy 2020 diverge.

The overcoming of the existing discrepancies and challenges requires a re-thinking of the approaches and coordination mechanism as well as a systemic and integral approach as well as continuity of the measures implemented in both the European Union and the individual member-countries.

The goals of the Strategy 2020 are focused on structural reforms, contributing to the optimization of the distribution and the utilization of the labour resources. Particular attention is attributed to the need to speed up the reforms in the spheres of education, healthcare and the social services.

Alongside the restructuring of the aforementioned three key public sectors, the comprehensive approach also includes the provision of support to the economic and demographic development.

In addition, the success of the reforms is linked to the activation of the main agents on the labour markets and within the civil structures and the identification of their responsibilities and initiatives both during the preparation of national strategies and throughout the process of their implementation.

Whether the goals of the comparatively recently formulated strategy are achievable is subject to discussions both within the European structures and in the member-countries. It becomes apparent that the effects of the crisis are considerably deep and lasting, which necessitates the execution of continuous monitoring of the on-going processes and the impacts of the implemented policies.

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